SERVICE® CREDIT UNION

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Gerard S. Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin,

Thank you and the NCUA Board for the opportunity to provide feedback on the proposed changes to 12 CFR Part 722, NCUA's Real Estate Appraisal regulation. The proposed rule and accompanying commentary appear to move the industry in a direction that gives credit unions more flexibility and speed in real estate-related transactions while still upholding safe and sound lending practices. However, there are still hurdles that would prevent us from fully enjoying these benefits, and there are areas that would need to be further defined for us to determine whether or not this would truly offer us regulatory relief. Additionally, we have feedback specific to the rural area exemption, other factors to consider when evaluating thresholds for valuations of non-complex residential real estate transactions, and the establishment of a de minimis exemption.

The most significant and obvious hurdle for us is the underwriting standards to the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). As long as these agencies continue to require a full appraisal on a transaction in order for it to be saleable, our hands are somewhat tied as to how we can adapt our appraisal and other evaluation methods. If these agencies could safely relax their state-certified appraisal requirement and also accept state-licensed appraisals and written estimates of market value in certain scenarios, we believe that the industry would be able to take more advantage of this proposed rule change.

Appraisals in Rural Areas

Specific to the proposed exemption for rural property appraisals, in general we have not had a problem getting appraisals in rural areas, although it may take 7-10 days longer than in a metropolitan area. Even if we had been experiencing issues with rural area appraisals, the proposed exemption does not seem like an effective solution. The loan would not be saleable to anyone but another portfolio lender. Our mission when underwriting real estate loans is to write to the secondary market standards to maintain a potential source of liquidity. Also, the logistics of finding 3 licensed appraisers and documenting that search is an additional step that we do not take now. Where we aren't experiencing problems obtaining these appraisals, this doesn't appear to be a practical solution for our credit union.

Instead, when we look at the added delay for appraisals in rural areas, we believe that this is due to a need for more appraisers in our industry. The profession requires a college degree and an apprentice period; an apprenticed appraiser needs to work with a certified appraiser for two years before they can be certified. NCUA should consider if a trainee-apprentice could be given the authority to inspect the property and complete the appraisal report with the sign-off of a licensed or certified appraiser, and if this could be an acceptable evaluation on a non-complex residential real estate-related transaction up to a certain threshold, for example $400,000. This may give certified appraisers incentive to take on more apprentices and could help address the need for additional appraisers in our industry.

The proposed rural appraisal exemption would also still likely require a written estimate of market value under 722.3(d). There are alternative valuation reports such as a Property Condition Report that provide an Automated Valuation Model (AVM) value plus a photo of the property, helping one evaluate the current condition. It is unclear now whether this would meet the requirement of a written estimate of value. It would be helpful for NCUA to issue guidance on the expectations of what the written estimate would need to entail or to comment if the 2005 Interagency Appraisal and Evaluation Guidelines would be sufficient continuing guidance on evaluation content.

Non-Complex Residential Real Estate-related Transactions

In evaluating the threshold for non-complex residential real estate-related transactions, we believe that loan-to-value (LTV) is an additional factor that should be considered. We would also support an increase to the current $250,000 threshold, above which an appraisal would be required by a state-licensed or state-certified appraiser.

It is our opinion that when underwriting a loan, the desire to waive a formal valuation method would be driven more by the estimated LTV of a transaction and not the transaction value itself. For example, if we were considering a $150,000 real estate-secured loan, we would be more concerned about validating the securing property's value if an AVM and tax assessment value indicated that the home's value was only around $170,000. We would be more comfortable if these sources indicated a value of $225,000 and therefore a lower LTV.

We would take this proposal a step further and request NCUA to consider if an LTV threshold could be established where non-complex residential real estate would not require an appraisal, increasing the number of loans that could rely on a written estimate of market value (under 722.3(d)). If this could be done in a safe and sound manner, this is where we would likely see the most regulatory relief and where we would be able to provide our members with better financial options, increasing the speed of their loan closings. Currently, we can be prepared to offer credit to someone within two to three days, but we must wait three to four weeks for an appraisal to come back. It typically takes that long for us to secure an appraiser, have them visit the site to perform their review, and issue us their report. If the NCUA would allow us to instead accept an AVM with a visual inspection to evaluate condition, we could advance credit much sooner to the borrower, remembering that this would only be under a given dollar amount threshold and comfortable LTV point. For example, loans under $400,000 with LTV's less than 65%. This would still make the loan unsaleable on the secondary market, but it could be beneficial to our members seeking HELOCs and second mortgages.

We also considered the Board's question specific to establishing a de minimis threshold amount, underneath which a real estate-related transaction would be exempt from a written estimate of market value. While we do not object to this idea, we still anticipate that some sort of informal evaluation would be prudent to perform, however we appreciate that the NCUA would give us flexibility here.

It may also be appropriate for the NCUA to consider varying property values in different geographic areas across the country. Keeping appraisal requirements set at a fixed dollar amount may naturally make closing costs higher in areas where properties have higher values. The Federal Housing Finance Agency (FHFA) accounts for this when establishing conforming loan limits by setting nationwide "base limit" and then allows a higher limit in high-cost counties. This suggests that a one-size-fits-all policy for setting rules in the mortgage market is not appropriate, and we feel that this same consideration should be given to the appraisal regulations.

Non-Residential Real Estate-related Transactions

In terms of regulatory relief for our commercial lending program, increasing the appraisal requirement threshold from $250,000 to $1,000,000 could certainly increase the number of loans that do not require an appraisal. However, it is unclear whether the final rule and accompanying commentary will incorporate more provisions relative to a "complex" transaction versus a "non-complex" transaction and whether that will impact the ability for a loan to qualify for a written estimate of value versus an appraisal. As stated above, we would like to know more about what the regulatory requirements will be for a written estimate. If that encompasses most elements of an appraisal, then the cost of such would likely be similar to that of an appraisal and also take similar time to complete. Therefore while the proposed rule provides some parity with the revised 2018 appraisal standards for banks, we cannot tell if it will provide regulatory relief to credit unions until further explanation is provided for complex versus non-complex transactions and written estimates of value are further defined.

In conclusion, thank you for your consideration of this regulation and above suggestions. We hope that this information is useful to you during the rule-making process and would be happy to engage further if there are any areas that you would be interested in discussing in more detail. We look forward to reviewing the final version of the rule and hope that ultimately it gives credit unions and their members greater flexibility and options.

Sincerely,

S. Kinnett

Stephanie Kinnett
Assistant Vice President – Regulatory Compliance
Service Credit Union